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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 000392

SENSITIVE
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DEPARTMENT FOR NEA/FO; NEA/ARP/BMCGOVERN

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TAGS: ETRD KIPR EFIN ECON PREL AE
SUBJECT: DUBAI'S NAKHEEL LOOKS TO MARKET FOR DEBT COMPROMISE

REF: A. A. DUBAI 000380
¶B. B. DUBAI 000354

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CLASSIFIED BY: Justin Siberell, Consul General.
REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: Financial gossip in Dubai continues to revolve around how mega developer Nakheel plans to address its massive USD 3.5 billion Sukuk bond debt obligation due in December. Although Dubai's credit markets have begun to thaw, most analysts have come to expect an Abu Dhabi-funded bailout of the firm. Nakheel's General Counsel has told us, however, of intent to negotiate a rollover of a substantial, albeit undisclosed amount of its Sukuk debt, with plans to pay the remaining debt with Nakheel's own cash by December. The boldness of such a deal, especially in light of rampant speculation of a possible Nakheel default and expectations of an Abu Dhabi-funded bailout, suggests a reassertion of Nakheel's control over its business activities and a push back on the idea that a government bailout is the only answer. Nakheel seems to be basing this strategy on the assumption that Dubai's crippled real estate sector will soon hit bottom - an assertion not shared by many analysts who believe that point may still be months away. Meanwhile Nakheel's contractors continue to complain about not being paid.
END SUMMARY.

NAKHEEL NEEDS MORE TIME TO PAY DEBT

¶2. (C) David Nicholson, General Counsel of Nakheel, told Econoff in a recent meeting that the company needs more time to pay its debts and, therefore, plans to rollover a substantial portion of the USD 3.5 billion Sukuk obligation due in December. The debt rollover would be coupled with a partial payback of as much as half of the owed amount, financed most likely by Nakheel's recent sale of several of its large holdings and assets overseas (Ref A). The deferment on the debt tells the larger story, however, as investors have been following Nakheel's upcoming debt resolution as a litmus test of whether Dubai is prepared to face up to and resolve its debt crisis proactively, or content to rely upon a bailout by its wealthier Federation partner, Abu Dhabi. The rollover presented by Nicholson would provide Nakheel time required to complete an internal restructuring and deal with creditors head on. Nicholson said that Nakheel is already undergoing the necessary due diligence on the proposed rollover, but that a time frame for the extension has not yet been set.

DEBT COMPROMISE IS A BET ON A DUBAI RECOVERY

¶3. (C) Nicholson expects most bond holders to support a partial rollover of its debt because, in his estimation, Nakheel debt holders tend to associate their position in the company as linked directly to the long-term prospects for Dubai's economy. Nicholson said that Nakheel is optimistic about its future, particularly as the company expects a Dubai recovery in the second half of 2010 to boost its business and reward its debt holders and because Nakheel still has rights to about half of Dubai's undeveloped land. He suggested that Dubai's real estate sector is already on the eve of a critical bottoming out as consolidation and normalizing prices have created much needed interest and activity in the sector.

¶4. (C) Nicholson admitted that Nakheel has not yet received agreement from its Sukuk bond holders to support such a plan. In fact, a banker at EFG Hermes, reportedly Nakheel's single largest Sukuk bond holder, confirmed to Econoff that it had not approved any rollover. In spite of significant internal financial constraints and contract headwinds with skeptical creditors, Nicholson nonetheless appeared confident that Nakheel could not only meet part of its December debt obligation with its own cash, but also convince creditors like EFG Hermes to accept a proposed debt rollover deal.

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REAL ESTATE CONSOLIDATION EQUALS RECOVERY?

¶5. (C) Nicholson cited the consolidation of Dubai Holding's property interests with Emaar as a sign of the nascent recovery and a coordinated effort by big real estate players to stabilize the market and put a floor on prices by narrowing the supply/demand gap (Ref B). The consolidated developers would in turn be able to better share costs of future project developments. He also described a more recent wave of consolidation taking place in the market as a result of cash rich agents purchasing and consolidating multiple distressed properties from individuals on the verge of default. Agents have been offering distressed buyers half or part of the money they originally put down on properties in order to obtain the rights to the property deeds. Now accounting for 10 to 20 percent of the real estate market, developers still have to agree to allow agents to finalize these types of distressed deals. Although Nakheel has not permitted its customers to engage in such deals with agents, or itself been part of any consolidation effort similar to Dubai Holding and Emaar, Nicholson suggested that the deals seem to be cleaning out a lot of the excess capacity.

U.S. COMPANIES NOT BEING PAID BY NAKHEEL

¶6. (C) In spite of Nakheel's plans to renegotiate terms with bond holders and its optimistic views on a recovery, many foreign based companies, including some U.S. contractors, continue to complain privately that they have not been compensated for services rendered to Nakheel. Due to the sensitive nature of doing business in Dubai, many U.S. companies are trying to broker some agreement with Nakheel behind the scenes, albeit with minimal success to date. Nicholson explained to econoff that Nakheel has simply not had the cash to pay its contractors for work done on various projects. Contractors have taken a back seat in Nakheel's restructuring efforts. It is not clear exactly how much Nakheel owes to U.S. entities; however, anecdotal reports suggest at least USD 178 million. Our counterparts at the French, Indian, and Malaysian, and Dutch Consulates have shared with us similar stories of non-payment to their companies.

COMMENT

¶7. (C) The assertion by Nakheel's General Counsel that the company is renegotiating and restructuring its debt suggests a possible turnaround for the ailing real estate giant. The news of a proposed debt rollover is especially noteworthy for a company that has remained particularly silent about its upcoming debt repayment plans and has largely rebuffed press and investor inquiries over the last year. The proposed deal also completely contradicts many analysts' predictions that a government led bailout would be the likeliest outcome in December. In spite of this bold move, there is still no evidence that a largely skeptical international market will embrace Nakheel's plans, although the deal would suggest a move to more openly deal with the market and possibly improve transparency. However, if Nicholson's confidence is borne out, a successful debt restructuring by Nakheel will be viewed positively as evidence that Dubai may, after all, be capable of coming to terms with its debt in a more transparent manner than we've seen to date.
END COMMENT
SIBERELL